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July 22, 2002

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth St., S.W.
Washington, D.C. 20554

**Re: Application of Qwest Communications International Inc.
To Provide In-Region, InterLATA Services in the States
of Colorado, Idaho, Iowa, Nebraska, and North Dakota;
WC Docket No. 02-148**

Ex Parte – REDACTED – FOR PUBLIC INSPECTION

Dear Ms. Dortch:

On July 19, 2002, Qwest Communications International Inc. ("Qwest") representatives met with the Wireline Competition Bureau ("WCB") staff regarding the proceeding listed above. WCB staff members participating in the meeting included Guy Benson, Doug Galbi, Nese Guendelsberger, Dick Kwiatkowski, Jennifer McGee, Steve Morris, Kathy O'Neill, Deena Shetler, and Harry Wingo. Qwest representatives present at the meeting included Melissa Newman, Gary Fleming, and Jerry Thompson of Qwest; Lynn Charytan, Samir Jain, and Bill Richardson of Wilmer, Cutler & Pickering; and the undersigned.

During the meeting, Qwest representatives responded to the WCB staff's questions about certain of the opposing parties' arguments regarding Qwest's pricing of unbundled network elements and interconnection. The attached documents summarize the presentation, and were distributed during the meeting. Most of these documents are submitted herewith in the public record of this proceeding. Some of the attached documents, however, are confidential, and are being submitted under separate cover.

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Qwest is submitting electronically, via the Commission's Electronic Comment Filing System, the redacted version of the documents provided to staff. Qwest separately is submitting one copy of the confidential portion of such documents. These confidential portions are associated with the Exhibits to the Responses to Questions 6 and 11 in the redacted submission. Six copies of the confidential and redacted versions of the documents also are being submitted to Gary Remondino of the FCC's Wireline Competition Bureau's Policy Division.

Qwest submits the enclosed documents with the understanding that they will be subject to the Protective Order in this proceeding, DA 02-1391 (rel. June 13, 2002). Inquiries regarding access to the confidential portion of these documents (subject to the terms of the Protective Order) should be addressed to the following:

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Pursuant to the Public Notice in this proceeding, DA 02-1390 (rel. June 13, 2002), the 20 page limit does not apply. Please contact me if you have any questions.

Respectfully submitted,



David L. Sieradzki
Counsel for Qwest Communications
International Inc.

Enclosures

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cc: Guy Benson
Doug Galbi
Nese Guendelsberger
Dick Kwiatkowski
Jennifer McGee
Steve Morris
Kathy O'Neill
Deena Shetler
Harry Wingo

**Qwest Responses to Pricing Questions and Arguments
Raised by Opposing Parties**

**WC Docket No. 02-148
July 19, 2002**

Question #1: *Has Qwest verified that the version of the FCC Synthesis Model that it used in its benchmarking analysis incorrectly included exchanges (wire centers) that Qwest has previously sold? If so, what corrections did Qwest undertake and what were the results of those corrections?*

- Yes. Qwest has re-examined the version of the model it used and confirmed that, as WorldCom and AT&T point out, certain exchanges in Idaho, Iowa, and North Dakota that Qwest has sold were erroneously included in the benchmark analysis that Qwest used to derive the rates set forth in the application.
 - The results of a corrected analysis, excluding these exchanges, show that the benchmark levels would be lower by 0.9% in Idaho, 2.9% in Iowa, and 8.4% in North Dakota.
 - The attached file lists the prior benchmarked rate and the corrected benchmark rates for each of the states. The steps Qwest took to develop its corrected analysis are set forth in detail below.
- Qwest has agreed to reduce rates accordingly, and plans to implement the necessary rate changes through revised SGAT Exhibit A's, to be filed within the next week or two with the state regulators.
 - No rate reduction is necessary for the switching elements for Idaho.
 - » This is because, in the course of re-running the data from the corrected version of the Synthesis Model, we also discovered another error in the Idaho analysis. Rather than including Synthesis Model costs for both of Qwest's Idaho study areas in the analysis (as was done, properly, in the loop benchmarking analysis), the switching/transport analysis only included Synthesis Model costs for the Southern Idaho study area and not the smaller, higher-cost study area comprised of the Northern Idaho panhandle.
 - » This second error (erroneously excluding Northern Idaho) had the opposite effect as the first error (incorrectly including exchanges that have been sold): the second error yielded benchmarked switching/transport rates that were erroneously low.
 - » Correcting for this second error would more than offset the error connected with the improper inclusion of exchanges that had been sold.

Thus, the combination of the first and second corrections arguably would justify a very slight UNE rate increase. Nonetheless, Qwest is leaving the currently effective Idaho UNE rates in place.

- The following provides additional detail regarding the Synthesis Model analysis Qwest conducted.
 - Qwest based its analysis on the version of the SM publicly available from the FCC's web site. This model assigns wire centers to study areas based on data stored in a Microsoft Access database file titled 'hm50.mdb', which is found in the /hcpm/db/ directory created by installing the SM on a computer.
 - » Qwest used the January 20, 2000 version of hm50.mdb for this analysis, since this version generates the closest match to the model results available on the FCC's web site.
 - Qwest modified the data in the hm50.mdb database for the states Iowa, Idaho, and North Dakota to exclude wire centers that were erroneously assigned to Qwest study areas.
 - » Within hm50.mdb, two tables contain data that direct the SM to process wire centers for a particular study area: 'ClusterData,' and 'LERG_host_remote.'
 - » The table 'ClusterData' provides information about each wire center in the United States. Specifically, the fields 'Company' and 'Neca_ID' assign each wire center to a specific study area. For each wire center incorrectly assigned to a Qwest study area, the 'Company' field was changed to the value 'Sold' and the 'Neca_ID' field was changed to the value '000000.' This prevented the loop investment logic in the SM from processing these wire centers when running Qwest study areas.
 - » The table 'LERG_host_remote' instructs the SM's switching and transport module to model remote switch efficiencies. Whenever a record in this table listed a Qwest remote switch when, in fact, Qwest does not own that switch, that record was deleted.
 - Qwest determined, consistent with the analysis in the declaration of WorldCom's witness, Chris Frentrup (p.30), that Colorado and Nebraska are correctly represented in the FCC SM and did not require correction for sold wire centers.

Question #2: *How does Qwest respond to AT&T's and WorldCom's arguments that Qwest's benchmark analysis incorrectly used standard assumptions regarding minutes of use rather than state-specific numbers?*

- As an initial matter, AT&T and WorldCom mischaracterize the holding of the *New Jersey 271 Order*, ¶ 53. That order did *not* hold that state-specific assumptions regarding minutes-of-use and traffic patterns must always be used in benchmark analyses.
 - To the contrary, ¶ 53 of that order specifically notes that “use of the standardized demand assumptions in the *Pennsylvania Order* may also be reasonable depending on the particular section 271 application under review. The absence of valid state-specific demand data, for example, might be a reason to use the Commission’s standardized demand assumptions.”
 - The FCC relied on a benchmark analysis using standardized assumptions, rather than actual state-specific data in its Pennsylvania and Maine decisions.
 - In Qwest’s case, there are several reasons why use of the standardized demand assumptions is more reasonable.
- First, while Qwest has data on total minutes-of-use by state, Qwest does not have studies that support state-specific data on three important variables regarding traffic patterns: (1) percent of interoffice vs. intraoffice calls, (2) percent of originating vs. terminating calls, and (3) percent of calls to an access tandem vs. direct to a POP.
 - Qwest formerly conducted traffic studies to determine such information. However, over the last few years Qwest, like the industry, has simplified and eliminated many processes and studies that it previously had done. For example, the jurisdictional separations rules were changed two years ago to eliminate the requirement to report data, in order to remove burdensome data collection requirements.
 - It is not necessarily valid to utilize combinations of state-specific data on minutes-of-use with assumptions about the three critical traffic variables (percent of interoffice vs. intraoffice calls, percent of originating vs. terminating calls, and percent of calls to an access tandem vs. direct to a POP).
 - » For example, AT&T did not use actual minutes-of-use for intraLATA toll or interLATA access and did not use the FCC standard assumption for origination and termination of traffic. This mix and match methodology is based on subjective selection and undocumented data. (WorldCom did not present a benchmark analysis).

- » AT&T's approach in this proceeding combines apples and oranges and is less reliable than either consistent use of standardized assumptions or consistent use of actual state-specific data (when the complete set of information is available).
- Second, unlike Verizon, which to date has filed Section 271 applications for single states seriatim (or at most, two states together), Qwest has made it clear from the outset that it planned to file Section 271 applications for as many of its 14 states as possible within a tightly compressed time period.
 - Qwest plans to use the FCC's standardized minutes-of-use and traffic assumptions for the 13 states (apart from Colorado) in which it will rely in part on a benchmark pricing analysis. For a region-wide set of applications, this is the most consistent approach and the best way to avoid controversy over which state-specific data are properly used in the analysis. This approach also makes the region-wide benchmarking exercise as straightforward and predictable as possible
- Third, there is no merit in AT&T's and WorldCom's unsupported contentions that the fact that Qwest chose to use standardized minutes and traffic data, rather than actual state-specific data, must mean that the results are biased systematically toward higher benchmark UNE rates that benefit Qwest.
 - To the contrary, as the analysis below demonstrates, use of the FCC's standardized minutes and traffic data yields lower UNE rates in some of the 13 states, and higher rates in other states, for which Qwest plans to justify rates in part based on benchmarking against Colorado.
 - Qwest conducted benchmark analyses, using both: (a) the approach in its applications (FCC's standardized assumptions for minutes-of-use and traffic patterns), and (b) the approach apparently desired by AT&T and WorldCom (state specific minutes-of-use and assumptions for the traffic variables). Qwest conducted these analyses using actual state-specific data for three years of minutes-of-use and FCC standardized assumptions on the traffic variables (percent of interoffice vs. intraoffice calls, percent of originating vs. terminating calls, and percent of calls to an access tandem vs. direct to a POP).
 - » Qwest analyzed three years of actual minutes-of-use because different conclusions could be reached depending upon the data year selected and the volatility of data from year to year.
 - 1999 –
 - » The use of the FCC's standard minute-of-use assumptions produces a lower benchmark than the use of state-specific data in 11 of Qwest's 13

benchmark states –Arizona, Iowa, Idaho, Minnesota, Montana, North Dakota, New Mexico, Oregon, South Dakota, Utah, and Wyoming.

- » The use of actual minute-of-use data produces a lower than the use of FCC standard assumptions in 2 of Qwest's 13 benchmark states – Nebraska and Washington.
- 2000 –
 - » The use of the FCC's standard minute-of-use assumptions produces a lower benchmark than the use of state-specific data in 8 of Qwest's 13 benchmark states –Arizona, Iowa, Idaho, Minnesota, New Mexico, Oregon, South Dakota and Utah.
 - » The use of actual minute-of-use data produces a lower benchmark than the use of FCC standard assumptions in 5 of Qwest's 13 benchmark states –Montana, North Dakota, Nebraska, Washington and Wyoming.
- 2001 –
 - » The use of the FCC's standard minute-of-use assumptions produces a lower benchmark than the use of state-specific data in 6 of Qwest's 13 benchmark states –Arizona, Iowa, Idaho, New Mexico, South Dakota and Wyoming.
 - » The use of actual minute-of-use data produces a lower benchmark than the use of FCC standard assumptions in 7 of Qwest's 13 benchmark states – Minnesota, Montana, North Dakota, Nebraska, Oregon, Utah, and Washington.
- This makes it clear that Qwest derives no systematic advantage from relying on standard minutes-of-use assumptions.
- Whether a UNE switching rate is actually reduced depends upon the current rates in effect and the relationship of the rate levels of local switching, port and shared transport. For example, the current local switching rates in Oregon and New Mexico are lower than the FCC standard assumption benchmark and all three years of actual minutes-of-use benchmarks.
- Qwest calculates that there is a 22% difference between North Dakota non-loop aggregate rates based on 2001 DEM data and based on the FCC's standard assumptions. AT&T reports that it calculates a difference of 48%; but Qwest cannot explain the difference between Qwest's 22% figure and AT&T's 48% without access to the underlying data and assumptions used in AT&T's benchmark calculation (which were not submitted by AT&T). Qwest believes that the some of the difference in AT&T's variance calculation and Qwest's is

due to AT&T's use of proprietary TNS minutes-of-use data, or possibly other assumptions, rather than using the publicly available data.

Question #3: *How do you respond to AT&T's argument that Qwest's new (or increased) rates for grooming, cross-connects, and OSS affect comparisons of loop rates and make the loop rates in Iowa, North Dakota, and Nebraska higher than the comparable Colorado rates?*

- None of these rate elements are properly included in a benchmarking analysis. The Commission has already rejected attempts to include in its benchmark analysis unrelated charges such as those AT&T proposes to include here.
 - In a closely analogous decision, for example, the Commission rejected a similar argument raised by the same AT&T declarant. The Commission held, “Although carriers only purchase DUF when they purchase unbundled switching, DUF charges are separated from switching charges, and we have not included them in our earlier benchmark comparisons of non-loop rates among states. Nor is the cost for DUF service provided by an incumbent LEC to a competitive LEC reflected in the Synthesis Model that we use to compare relative local exchange network costs. We conclude that any analysis of DUF charges should be done independently.” *Georgia/Louisiana 271 Order*, ¶ 86. Qwest’s rates for OSS, cross-connects, and grooming charges are likewise irrelevant to the benchmark analysis.
- OSS. Contrary to AT&T’s assertion, the OSS charge about which it complains is a *non-recurring* charge assessed on each order (no matter how many lines are at issue), not a monthly recurring charge. It therefore is irrelevant to the benchmark analysis of Qwest’s recurring UNE-P rates.
 - Moreover, the non-recurring amounts at issue are trivial: \$1.38 in Iowa, \$2.52 in Nebraska, and \$3.49 in North Dakota.
- Cross-Connect. The cross-connect charge is not an element of the unbundled loop, but rather a collocation-related element. AT&T’s attempt to shoehorn this charge into a benchmark analysis of relative loop rates should be rejected.
 - The cross-connect charges are all essentially equivalent for the states in AT&T’s analysis (Colorado, Iowa, Nebraska, and North Dakota), so those charges provide no basis for challenging Qwest’s benchmarking analysis.
- Grooming. Even under the questionable premise that it is appropriate to take grooming charges into account in a benchmarking analysis, it would be difficult to perform a straightforward benchmark comparison of the grooming charges in Colorado versus the charges in Nebraska and North Dakota because the structure and application of the rates differ markedly.
 - In Colorado, the \$2.06 recurring grooming charge applies only to those unbundled loops in the current network that actually require demultiplexing (*i.e.*, grooming) because they are on IDLC. In Nebraska and North Dakota,

recurring grooming charges of (respectively) \$1.17 and \$1.35 apply to *all* loops (whether IDLC or not) that are provided on an unbundled, stand-alone basis (*i.e.*, not as part of UNE-P). (In Iowa, there is no grooming charge.)

- However, to the extent any comparison were possible, the rate differences are not significant enough to undermine the reasonableness of Qwest's rates in any of the states.
- It is also notable that, in the *Georgia/Louisiana 271 Order* (§§ 38, 48-50), the Commission specifically concluded that a higher rate for stand-alone unbundled loops than for the loop component of UNE-P, reflecting the cost of IDLC demultiplexing, was consistent with TELRIC. The rate differences between stand-alone loops and the loop component of UNE-P that the Commission approved in Georgia (\$4.02 – see *id.*, § 47) is substantially higher than the grooming charges at issue here. Similarly, in New York, Verizon will only perform grooming on a *bona fide* request basis, and imposes a special construction charge for the service.
- Even if one were to include recurring grooming and cross-connect charges in the benchmark analysis – but not the *non-recurring* OSS charge – the resulting rates in Iowa, Nebraska, and North Dakota would be approximately the same as, or less than, the cost-adjusted Colorado benchmark rates.
- Finally, with the exception of the OSS rate in North Dakota, none of these rates are “new,” as AT&T alleges. They are preexisting, bona fide charges that have been in Qwest's SGAT and assessed to CLECs in a number of states, including Iowa, North Dakota, and Nebraska. Indeed, AT&T complained about allegedly new charges in each of these three states at the time that Qwest reduced its rates in response to its benchmarking analysis, but the state regulators rejected the argument in each case.

Question #4: *AT&T contends that the HAI Model's default 94% switching fill factor in effect yields an "implicit fill factor" of 72.5%. Does Qwest disagree with this analysis? If so, please explain the basis for the 82.5% switch fill factor used to set local switching rates in Colorado. In addition, please respond to AT&T's charge that the local switching rates improperly double-recover the costs of providing vertical features.*

- **AT&T's argument that the HAI default switching fill factor of 94% allows an "implicit fill factor" of 72.5% is deeply misleading and is based on an erroneous analysis.**
 - AT&T attempts to defend its 94% switching fill factor on the basis that the HAI Model includes an additional 80% fill on the "fixed" portion of the switch investment. Specifically, AT&T contends that the HAI Model "includes the fixed investment for a switch that could serve at least 100,000 lines, but limits the actual line size to 72,500." According to AT&T, while modern switches can serve 100,000 lines or more, the HAI Model constrains the maximum number of lines on the switch to 80,000; and the administrative fill factor of 94% means that, in effect, the HAI Model assumes a maximum of 75,200 lines in service per switch even though the same "fixed" investment could support a switch with 100,000 lines.
 - This analysis is misleading and erroneous for two reasons. (1) AT&T's analysis is based on an assumption that most switch investment is "fixed" (i.e., does not vary per line), but this assumption is incorrect, and is contradicted by the HAI Model itself. (2) AT&T's analysis applies only to very large switches with 80,000 lines or more, but the data in the HAI Model show very few such switches in Colorado or elsewhere in Qwest's service area. These two points are discussed in turn below.
 - **(1)** The core of AT&T's argument is that "[s]ince it is straightforward to add line cards to switches that already have sufficient common equipment, the model then appropriately applies a 94% fill factor to calculate the investment in required line cards." AT&T's declarants also assert that "today's switches are easily expandable." They assert that "a proper forward-looking cost model would not invest in more switching and line port investment than is required to have sufficient capacity to meet small unexpected increases in demand and any necessary administrative functions. Beyond that, as demand grows, it is a simple matter to install additional line port interface circuit boards to serve new subscribers." The declarants also note that the fixed cost of the HAI switching cost algorithm includes costs for common equipment that includes everything except the variable cost of "line port circuits to serve individual subscribers." The variable cost component of the algorithm represents the "per-subscriber interface equipment." (AT&T Chandler/Mercer Decl. at 11-13.)

- » This argument is based on an unsupported assumption that the “variable” cost of local switching – i.e., the incremental cost per line of adding capacity to serve additional lines – is relatively trivial. But the HAI Model’s own switch cost algorithm demonstrates that this assumption is incorrect, and that “variable” per-line costs account for by far the largest proportion of the total cost of a switch.
 - The HAI 5.2a Model uses the following function to compute switching costs (see HAI Inputs Portfolio, 4.1.10): $A + B \times L$. “A” is the fixed component, which in Colorado is about \$334,000. “B” is the variable component that represents the cost per line of the switch – in Colorado, \$87.00 per line. “L” is the number of lines required to serve customers assigned to a switch.
 - Thus, for a switch with 75,200 lines in service, the HAI Model computes a total direct cost of $\$334,000 + \$87(75,200) = \$6,876,400$. The cost per line is approximately \$91, of which the “fixed” portion is \$4 (4%) and the “variable” portion is \$87 (96%). For a switch serving half that many lines, the cost per line is approximately \$91, of which the “fixed” portion is \$9 (9%) and the “variable” portion is \$87 (91%). (While the “fixed cost” proportion of the total cost of a switch will be greater for a smaller switch, or in cases where a switch is operating at less than full capacity, it will nearly always be substantially lower than the \$87 variable cost amount.)
- » More fundamentally, it is inaccurate to characterize the process of switch line-additions as “straightforward” whenever demand is necessary. To the contrary, adding capacity to a switch is a complex engineering and installation activity that requires multiple pieces of equipment and lead times to prevent “held orders” (customers waiting for an active line). It is not a coincidence that the line investment is the majority of the switching cost. The line equipment necessary to serve new customers is extensive and much more than the “line cards” that the AT&T declarants describe.
 - Both Lucent 5ESS and Nortel DMS 100 switches have minimum increments (sometimes described as modularity) for increasing the line capacity of the switch. Generally, this increment is 640 lines.
 - For example, for a Nortel DMS 100 switch, adding capacity requires connecting Line Control Modules (LCMs), each of which serves up to 640 lines; Line Group Controllers (LGCs), each of which serves up to 5 LCMs and connects them to the network; and Line Concentrating Equipment (LCE) frames, each of which can house up to two LCMs. In addition, the line augmentation requires additional trunk capacity (trunk additions equal 12% of added line capacity).

- (2) AT&T's "implicit fill factor" argument is relevant only to very large switches. According to the data in the HAI Model, Qwest has very few central offices that serve 80,000 or more lines.
 - » According to the data used by the HAI Model, only 7 of the 166 central offices in Colorado serve 80,000 or more lines. Thus, even if AT&T's analysis were correct, the 72.5% "implicit fill factor" would rarely be achieved.
 - » The average lines assumed by the HAI Model per switch in Colorado are about 18,000. This means that the fixed investment fill of 72.5% that the declaration describes is very seldom utilized. For 96% of the switches in Colorado for which the HAI Model determines a cost, the vast majority have fixed costs that are unaffected by the fixed cost limitation of 80,000 lines.
- **The 82.5% fill factor utilized in Colorado is TELRIC-compliant, as demonstrated in the Thompson Colorado Pricing Declaration.**
 - AT&T's 94% administrative line fill does not make any provision for anticipating growth in the switch.
 - » By contrast, the 82.5% fill factor anticipates about 4% growth, or one year of growth. Evidence in the Colorado cost docket indicated that Colorado has had an annual growth rate of 4.32% in switched access lines. In fact, using a forecasting technique with a switch that has a 16 year life, 4.32% annual line growth, 5% administrative fill, and 7% idle dedicated lines (see discussion below), the 82.5% fill is easily justified. See Revised Exhibit RHB-18: Computation of Effective Fill Factor (modified from a similar exhibit in the Colorado cost docket).
 - The 82.5% fill factor also allows for the idle dedicated lines that are necessary to enable provision of "soft dial tone." (See the discussion of "soft dial tone" in the Thompson Colorado Pricing Declaration, pp.44-45.)
 - » All networks experience "churn," or the level of service disconnects as a percentage of the total subscriber base. As customers move, their previous or prospective locations remain vacant for some period of time. Rental units, in particular, experience periods of extended vacancies. In a wireline network, it is more efficient that some portion of the network lines be left connected while the location is vacant, than to incur the labor cost to disconnect and re-connect the line when service is re-established. This assumption that some percentage of the lines are currently unused or "idle" but left connected ("dedicated" to the customer location) is assumed in forward-looking cost studies. While this assumption assumes lower

labor costs of installation and disconnection, it also assumes higher unused line capacity on the switch, that is, lower fill factors.

- » According to the Census Bureau, Colorado experienced a 12% vacancy rate in all housing units in 2001. A Grubb and Ellis report predicts a 16% vacancy rate for business units in Colorado in 2002. Given this data, assuming up to 10% for idle dedicated lines on the switch is a conservative assumption for a forward-looking fill factor.
- » In addition, the non-recurring cost studies submitted by Qwest, as well as AT&T advocacy regarding NRCs, recognize that the use of idle dedicated lines can reduce the cost of disconnecting and connecting customers. For example, Qwest's UNE-P non-recurring cost study for new customers assumes 55% of the lines have dedicated inside plant not requiring the running of a jumper, and that 74% of the jumpers are left attached to the switch and not removed when the customer discontinues service.
- » AT&T's NRC witness makes much of the fact that "soft dial tone" can reduce the cost of disconnecting and connecting customers (see AT&T Weiss Decl., pp.6-7), whereas AT&T's switching cost witnesses, arguing for a 94% administrative-*only* fill factor, completely ignore the corresponding costs of "soft dial tone."

- **AT&T's argument that Qwest's Colorado switching rates provide double-recovery of vertical feature-related costs is wrong.**
 - The HAI Model does not account for the costs of initially installing software or software upgrades as part of switch investment. The switch investments in the HAI Model were based on an FCC study of actual ILEC switching investments. This FCC study was based on the digital switching investments reported by the ILECs. The cost of applications software (which is used to provide vertical features) has never been accounted for as a digital switch investment.
 - The HAI Model also does not include these costs in the development of operating expenses. (The model uses ILECs' actual, reported operating expenses as the starting point for estimating the operating expenses that would be incurred by a hypothetical efficient carrier, but reduces those expenses by a specified factor to account for efficiencies.)
 - » Verizon and most other ILECs accounted for the costs of installing applications software (*i.e.*, vertical features software) or other recurring, operating costs associated with vertical features as operating expenses prior to 1999.
 - » Unlike the other ILECs, however, Qwest treated these software upgrades and related costs as capital leases prior to 1999. Capital lease accounts are amortized, not depreciated; and this "intangible" amortization expense is not included in the development of cost factors in the HAI Model. This means that none of these costs are reflected in any Qwest account that serves as an expense input for the HAI Model.
 - Since 1999, all companies are capitalizing applications software as an intangible asset. These capitalized intangibles are amortized over the life of the asset. The HAI Model does not account for these amortized costs.

Question #5: *Explain why Qwest believes that a non-zero rate is permissible for the high frequency portion of the loop ("HFPL") used in line sharing. Please comment on whether de-averaged rates for HFPL should be implemented.*

- To date, at least four state commissions – California, Colorado, Connecticut, and Washington – have concluded that a non-zero rate for HFPL is not only permissible, but required under the Act. The Colorado PUC issued three orders addressing this matter in detail.
- These decisions are consistent with the *Line Sharing Order*, which set forth one possible pricing methodology that states “may” use, but by its terms did not require the use of that methodology. *Line Sharing Order*, ¶ 139.
 - The Commission observed that “the TELRIC methodology that the Commission adopted in the *Local Competition Order* does not directly address this issue,” because “the TELRIC methodology was designed to price ‘discrete network elements or facilities,’ rather than services. In the case of line sharing, however, the facility in question is, by definition, also used for two incumbent LEC services (local exchange service and interstate access service). The TELRIC methodology established in the *Local Competition Order*, as a definitional matter, does not apply to line sharing, because TELRIC is intended to develop rates for discrete network elements, while line sharing involves two carriers sharing the use of a single facility.” *Line Sharing Order*, ¶ 138.
 - The Commission has recognized that “it is difficult for regulators to determine an economically optimal allocation of . . . joint and common costs.” *Local Competition Order*, ¶ 678. In other words, there is no definitive “right answer” regarding how to properly allocate “joint costs” such as a line-shared loop used by both an ILEC and a CLEC. *See Local Competition Order*, ¶ 676 (defining “joint costs” as “costs incurred when two or more outputs are produced in fixed proportion by the same production process”).
 - Even if an ILEC were to incur no direct costs in providing the HFPL element other than the joint cost of the shared loop, the FCC, in the *Local Competition Order*, definitively rejected “setting the price of each discrete network element based solely on the forward-looking incremental costs directly attributable to the production of individual elements [because such an approach] will not recover the total forward-looking costs of operating the wholesale network.” *Local Competition Order*, ¶ 694.
- Moreover, the main pricing policy objective of the *Line Sharing Order* would in fact support a non-zero HFPL rate.
 - The objective of the *Order* appears to be to ensure that “CLECs and ILECs incur the same cost for access to the bandwidth required to provide xDSL

services” and to “alleviate any potential price squeeze.” *Line Sharing Order*, ¶ 141.

- The wide gap between the retail rates for Qwest’s DSL service, which start at approximately \$21.95 per month, and the wholesale line sharing rates (\$4.89 in Colorado), demonstrate intuitively that Qwest would easily satisfy any imputation test and that there is no possibility of a price squeeze.
- At best, the *Line Sharing Order*’s rules regarding the pricing standard for the shared loop are ambiguous, and thus should not preclude inclusion of a non-zero HFPL rate in a section 271 application.
 - This is especially so given that there are legitimate questions regarding whether the *Line Sharing Order* will be effective at all going forward, and whether ILECs will continue to have any line sharing obligations in the future. See *United States Telecom Ass’n v. FCC*, 290 F.3d 415 (D.C. Cir. 2002) (vacating line sharing rules).
 - Particularly in light of these uncertainties, the pricing of line sharing clearly is one of the unresolved legal disputes that provides no basis for denying a Section 271 application. See *Texas 271 Order*, 15 FCC Rcd at 18394, ¶ 87 (“the section 271 process could not function as Congress intended if we adopted a general policy of denying any section 271 application accompanied by unresolved pricing and other intercarrier disputes.”); *Missouri/Arkansas 271 Order* (resolution of DSL-resale).

- There is absolutely no foundation for the suggestion that HFPL rates be geographically deaveraged.
 - There is no precedent for geographically deaveraging HFPL rates. Neither the FCC nor any of the states in Qwest's region has ever advocated that approach in any order – or even an NPRM – much less established such an approach as a prerequisite for 271 clearance. Moreover, in the pricing proceedings in Colorado and the other states subject to this application, no CLEC nor any other party ever suggested establishing geographically deaveraged rates for the HFPL.
 - To the extent a principal concern is avoiding a retail/wholesale price squeeze for DSL, it would make no sense to address it by deaveraging the HFPL, because Qwest's retail DSL rates are averaged.
 - » Indeed, the Washington Commission *rejected* a proposal to set the HFPL rate at a percentage of the unbundled loop rate in each zone, which would have effectively produced deaveraged HFPL rates, precisely in order to *avoid* a price squeeze. The WUTC noted that while urban HFPL rates would decrease from the average, rural lines would increase, thereby creating a price squeeze in rural areas and discouraging CLECs from offering advanced services there. The WUTC ordered a flat statewide HFPL rate instead.
 - Because the HFPL presents no costs that are not shared with other portions of the loop, there is no obvious methodological reason to deaverage it.

Question #6: *How do you respond to AT&T's argument that Qwest's rates for "hot cuts" and "basic loop install" are higher than other ILECs' rates?*

- **Coordinated "Hot Cut" Rate.** AT&T's comparison of Qwest's "hot cut" rate to other ILECs' rate is utterly misleading.
 - Qwest's \$59.81 coordinated installation is comparable to the New York "hot cut" rate (\$185.19 cost-based rate, \$35.00 promotional rate).
 - AT&T incorrectly compares the New York rate to Qwest's \$171.87 rate, which is the rate for an installation plus cooperative testing, and is *not* Qwest's rate for a basic hot cut.
- A hot cut is the simple transfer of a fully operational POTS line from the ILEC switch to a CLEC switch.
 - Qwest's \$59.81 hot cut rate covers all activities and tests required to ensure reliable service and all activities and tests that are included in the hot cut function provided by Verizon at the promotional \$35.00 rate. These include:
 - » ANI test two days prior to hot cut and on day of the hot cut
 - » Testing for dial tone on the CLEC line two days prior to the hot cut and on the day of the hot cut
 - » Coordination with the CLEC
- The similarity of Qwest's \$59.81 hot cut and Verizon's hot cut is demonstrated in the attached Qwest hot cut guidelines and Verizon declaration regarding hot cuts.
- Qwest's \$171.87 rate for special testing options involves services above and beyond those associated with a standard hot cut.
 - Qwest's \$171.87 rate is primarily designed for the provisioning of complex services for which a CLEC would want additional cooperative testing.
 - Because hot cuts typically involve only active POTS lines for which the additional cooperative testing is not necessary, only a fraction of CLEC hot cut orders placed with Qwest are priced at the \$171.87 rate as opposed to the \$59.81 rate.
 - Most other ILECs have separate charges for cooperative testing, above and beyond their basic rates.

- Qwest's hot cut rate is comparable to other ILECs' rates for similar services.
 - Qwest's \$59.81 hot cut rate (with coordination) is reasonable when compared to other comparable rates (*see attached spreadsheets*).
 - » TX: \$52.64 basic installation with coordination (any loop POTS installation; includes basic installation, disconnect charge, 15 minutes of labor for coordinating installation for coordinated cuts)
 - OK: \$88.15 (same)
 - KS: \$93.95 (same)
 - MO: \$66.97 (same)
 - » GA: \$83.63 (analog two wire loop only; includes basic installation and a "coordination" charge for coordinated cuts)
 - LA: \$59.00 (same)
 - » NY: \$188.73 (analog two wire loop only; promotional \$35.00 rate in place for two years for hot cuts only)
 - NJ: \$161.56 (same)
- AT&T's alleged comparison is also invalid on another level: Qwest's \$59.81 rate is a composite rate applicable to *all* loop types; AT&T's comparison looks at other ILECs' *least expensive* hot cut rate.
 - Verizon's NY/NJ \$35 promotional rate applies solely to the transfer of existing 2-wire analog loops.
 - » Other (generally higher) rates apply to the provisioning of new POTS loops, digital-capable loops, and 4-wire analog loops.
 - Qwest's \$59.81 rate applies to the coordinated installation of *all* these categories of loops.
- **Basic Loop Installation Rate.** AT&T's criticisms of Qwest's basic loop installation (*i.e.*, for the *uncoordinated* provisioning of a loop) charges are similarly flawed.
 - Qwest's \$55.12 non-recurring basic installation rate is comparable to other ILECs' rates for similar services.

- Qwest's basic loop installation covers all activities necessary to provision the loop, including:
 - » Basic provisioning
 - » Central Office wiring
 - » Service Order charges
 - » All testing Qwest believes necessary to insure loop quality (see attached testing guidelines)
- AT&T's comparison of basic installation rates fails to include all applicable charges.
 - » For example, AT&T claims that the equivalent New York rate is only \$0.13. In fact, as demonstrated on the attached sheets, that \$0.13 is only a basic provisioning charge, to which Verizon adds:
 - a \$39.59 Service Connection CO Wiring charge;
 - service order charges equaling \$9.01 for mechanized orders; and
 - an additional surcharge of \$26.56 for orders that are not submitted electronically.
- Comparison of Qwest's basic installation charge to that of other ILECs' reveals that the rates are comparable:
 - NY: \$51.92 (2-wire analog loop)
 - TX: \$31.20
 - OK: \$69.60
 - KS: \$43.59
 - MO: \$44.52
 - LA: \$41.44
 - GA: \$47.89
- Note that Qwest's \$55.27 rate applies to POTS, digital-capable *and* 4-wire loops. All the other ILEC rates cited above apply only to POTS loops.

Question #7: Please justify the quote preparation fee (“QPF”) that Qwest charges to respond to CLEC collocation inquiries, in response to New Edge’s comments (pp.5-7). Why do the QPF levels vary so much across the states? Why do they vary across different types of collocation? Why does the Colorado SGAT reflect that the QPF is credited against construction costs, but the SGATs in the other states do not?

Rate Levels of QPF That New Edge Complains About

State	All	Caged	Cageless	Virtual	Augment
CO	n/a	\$2,111.27 ⁺	\$2,111.27 ⁺	\$2,111.27 ⁺	\$1,055.50
ID	\$2,125.92 [*]	\$4,912.95 ^{&}	\$4,575.97 ^{&}	n/a	NONE
IA	\$1,573.68 ⁺	\$1,573.68 ⁺	\$1,573.68 ⁺	\$1,573.68 ⁺	NONE
NE	n/a	\$4,753.66 ⁺	\$4,981.81 ⁺	\$4,372.02 ⁺	NONE
ND	\$1,684.80 [*]	\$4,626.54 ^{&}	\$4,981.81 ^{&}	n/a	NONE

⁺ Ordered in cost docket
^{*} Ordered rates in arbitration
[&] Proposed in cost docket

Response

- Qwest’s practice in all of its states is to credit the QPF amount against the charges for space construction ordered by CLECs.
 - Colorado SGAT Exhibit A includes a footnote mentioning the practice of crediting QPFs against construction costs, and Qwest intends to add the same footnote in Exhibit A of the SGATs in the remaining states in the near future.
 - The QPF credit was openly discussed in cost docket proceedings, workshops, and discovery, where active participants had ample opportunity to fully understand the credit. Thus, contrary to New Edge’s claim of “obfuscation” and confusion, all parties should be aware of the fact that Qwest credits the QPF against collocation construction charges.
- Because of the credit, Qwest’s QPF matters only when CLECs ask for a quote but do not proceed to order collocation. The charge is reasonable and reflects costs that a reasonably efficient carrier would incur.
 - Qwest incurs project management and engineering costs in the course of preparing a collocation quote. While these tasks and the attendant costs are an intrinsic part of providing collocation once ordered (thus the credit described above), Qwest must be able to recoup these real costs, which any

efficient carrier would incur, even if the CLEC decides not to order the collocation.

- Qwest submitted evidence to its state regulators that the actual forward-looking cost is in the range of \$4,000-\$5,000. The Colorado and Iowa regulatory agencies actively scrutinized Qwest's proposed QPFs in Colorado and ordered lower rates.
 - » TELRIC pricing is an inexact "science" that lends itself to divergent rate levels for the same cost elements in different states, as the Commission has repeatedly recognized. The fact that the same function has different TELRIC-based rates in different states is not grounds for denying a 271 application.
 - » New Edge had the opportunity to participate and raise the issue of QPFs in the Idaho, Nebraska and North Dakota proceedings, but failed to do so. It cannot raise the issue for the first time at this late date in the context of a 271 application before the FCC. In all events, New Edge cannot credibly dispute that Qwest incurs costs in preparing a quote whether or not the CLEC decides to proceed with the order once the quote is received.
- In Colorado, Qwest recently introduced separate QPFs for space augments (*i.e.*, construction of additional space on an existing collocation). Qwest intends to introduce the lower QPF for collocation space augments in all states at the next available opportunity.

Question #8: *How does Qwest respond to New Edge's argument that Qwest's DS1 and DS3 unbundled dedicated interoffice transport (UDIT) rates in Idaho and Iowa are significantly higher than the comparable rates in other states?*

- **Iowa - DS3**

- New Edge's allegations concerning Qwest's rates for DS3 UDIT in Iowa are factually incorrect. As Qwest's May 24, 20002 Iowa SGAT (Exhibit A) demonstrates, Qwest's DS3 rates were restructured and reduced and are now as follows:
 - 0-8 miles Recurring fixed \$219.24 Recurring per mile \$54.79
 - 9-25 miles Recurring fixed \$222.65 Recurring per mile \$17.32
 - 26-50 miles Recurring fixed \$204.76 Recurring per mile \$21.47
 - Over 50 miles Recurring fixed \$216.42 Recurring per mile \$14.86
- Therefore, using New Edge's example of a 10-mile DS3 UDIT, the rate in Iowa would not be \$5,328.09 (*see* New Edge at 8,9) but in fact would be **\$395.85** ($\$222.65 + (\$17.32 \times 10)$). (Note that these rates only include UDIT – *i.e.*, interoffice transport, and exclude entrance facilities; the full costs of dedicated transport includes both elements, and different states have different rate structures for these elements. Thus, this comparison that New Edge proposes is in fact flawed.)
- This \$395.85 DS3 UDIT rate is clearly comparable to and in some cases lower than the other rates cited by New Edge (*e.g.* \$492.03 in North Dakota). (Note that New Edge (at 9) misstates the Nebraska DS3 rate for 10 miles: the rate is \$395.85, just as it is in Iowa, not the \$421.56 alleged by New Edge.)
- That rate also is lower than the DS3 rates (excluding entrance facilities) that the FCC has approved in other states in which 271 relief has been granted:
 - MO \$1,884.49
 - TX \$458.44
 - OK \$1,296.54
 - AK \$458.44
 - PA \$975.90